

GARFIELD COUNTY SCHOOL DISTRICT

Financial Statements

Year Ended June 30, 2006

GARFIELD COUNTY SCHOOL DISTRICT

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GILBERT & STEWART

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Garfield County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Garfield County School District (District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

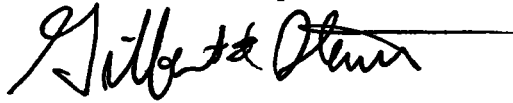
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Garfield County School District as of June 30, 2006, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2006, on our consideration of Garfield School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Gilbert & Stewart", with a horizontal line extending from the end of the signature.

GILBERT & STEWART
Certified Public Accountants

November 28, 2006

Management's Discussion and Analysis

As management of the Garfield County School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ending June 30, 2006. We encourage readers to consider the information presented here in conjunction the District's financial statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 10 through 11 of this report.

Fund Financial Statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories, governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as ***governmental activities*** in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for ***governmental funds*** with similar information presented for ***governmental activities*** in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between ***governmental funds*** and ***governmental activities***.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the ***general fund***, ***capital projects fund***, and ***debt service fund***, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of ***combining statements*** elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund statements can be found on pages 12 to 16 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are ***not*** reflected in the government-wide financial statement because the District cannot use these funds to finance its operations.

The District uses a fiduciary fund to account for resources held for other groups. The basic fiduciary fund financial statement can be found on page 17 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 19 to 32 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 34 to 42 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,858,427 at June 30, 2006.

Net Assets

	Governmental Activities	
	2006	2005
Current and other assets	\$ 5,986,410	\$ 5,323,216
Capital assets	13,039,466	13,374,976
Total assets	<u>\$ 19,025,876</u>	<u>\$ 18,698,192</u>
Current and other liabilities	\$ 3,678,047	\$ 3,422,621
Non-current liabilities	7,489,402	8,188,573
	<u>11,167,449</u>	<u>11,611,194</u>
Net Assets:		
Invested in capital assets		
net of related debt	5,745,491	5,378,844
Restricted	1,623,048	892,030
Unrestricted	489,888	816,124
	<u>\$ 7,858,427</u>	<u>\$ 7,086,998</u>

The largest portion of the District's net assets (73%) reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to students and consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Changes in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 113,797	\$ 103,818
Operating grants and contributions	2,498,084	2,469,376
General Revenues:		
Property taxes	3,365,834	3,200,632
Federal and state aid not restricted to specific purposes	4,889,766	4,427,015
Earnings on investments	119,820	49,748
Miscellaneous	242,115	382,548
Total revenues	<u>11,229,416</u>	<u>10,633,137</u>
Expenses:		
Instruction	6,633,019	6,460,578
Support services:		
Students	148,758	191,532
Instructional staff	65,858	61,409
District administration	354,806	333,758
School administration	853,963	720,536
Business	190,836	240,538
Operation & maintenance of plant	1,010,036	774,018
Transportation	497,648	391,408
School lunch services	365,291	345,746
Interest on long term liabilities	337,772	372,022
Total expenses	<u>10,457,987</u>	<u>9,891,545</u>
Changes in net assets	771,429	741,592
Net assets, beginning	7,086,998	6,345,406
Net assets, ending	<u>\$ 7,858,427</u>	<u>\$ 7,086,998</u>

A portion of the District's net assets (20%) represent resources that are subject to external restrictions on how they may be used. The remainder of net assets (6%) may be used to meet the District's ongoing obligations to students, employees, and creditors. However, the unrestricted net asset amount has been earmarked for the following purposes:

- Designation for Undistributed Reserve

As allowed by law, the District has established an *undistributed reserve* of \$170,000 of general fund budgeted revenues within the general fund which is set aside for contingencies or possible reductions in state funding and not to be used

in negotiation or settlement of contract salaries. The maintenance of a sufficient reserve is a key credit consideration in the District's bond rating of Aaa given by Moody's Investor Service.

As of June 30, 2006, the District is able to report positive balances in all three categories of net assets, both for the District as a whole and for its separate governmental activities. The same situation held true for the prior fiscal period.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to earmark resources for certain government-wide liabilities that are not recognized in the governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

The *general fund* is the chief operating fund of the District. At June 30, 2006, unreserved and undesignated fund balance was \$486,025 while the total fund balance was \$656,025. The unreserved and undesignated fund balance decreased by \$318,465 while the total fund balance also decreased by \$318,465 during the fiscal year. Annual expenditures in the general fund were \$585,413 less than the final budgeted amounts, and resources available for appropriation were \$123,934 more than final budgeted amounts.

The *capital projects fund* has a total fund balance of \$1,217,812, of which \$150,000 is restricted for acquisition of capital assets and related expenditures. The fund balance increased by \$567,679 during the fiscal year.

The *debt service fund* has a total fund balance of \$309,620, all of which is reserve for the payment of debt service on general obligation bonds. The fund balance increased by \$135,255 during the fiscal year.

The *non K-12 programs special revenue fund* has a total fund balance of \$114,969. This balance is within the total allowed by state guidelines and is restricted to non-kindergarten through twelfth grade programs and other community programs.

The *school lunch special revenue fund* has a total fund balance of \$7,852. This balance is within the total allowed by state guidelines and is restricted to food service programs.

Capital Assets and Debt Administration

A. Capital Assets

The capital projects fund is used primarily to account for costs incurred in acquiring, maintaining, and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

The primary class of capital assets used by the District to provide educational services to the public is school buildings. The District continually evaluates the cost efficiency of its buildings as part of its on-going capital improvements plan.

Capital assets at June 30, 2006 are outlined below:

Capital Assets

(net of accumulated depreciation)

	2006	2005
Land	\$ 100,222	\$ 100,222
Buildings	12,372,750	12,723,700
Furniture and Equipment	566,494	551,054
	<u>\$ 13,039,466</u>	<u>\$ 13,374,976</u>

B. Debt Administration

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2006 was \$16,284,060 while the general obligation debt at that date was \$7,111,000 resulting in a legal debt margin of \$9,173,060.

Additional information on the District's long-term debt can be found in Note 7 to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Garfield County School District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions concerning this report or need additional financial information, please contact the Business Administrator, Garfield County School District, 145 East Center Street, Panguitch, Utah 84759.

BASIC FINANCIAL STATEMENTS

GARFIELD COUNTY SCHOOL DISTRICT**Statement of Net Assets**

June 30, 2006

	Governmental Activities
Assets:	
Cash and investments	\$ 2,315,393
Receivables:	
Property taxes	3,054,026
Other governments	578,110
Inventories	9,591
Bond issuance costs, net	29,290
Capital assets:	
Land	100,222
Other capital assets, net of accumulated depreciation	12,939,244
Total assets	19,025,876
Liabilities:	
Accounts payable	81,036
Accrued interest	27,205
Accrued salaries	512,500
Deferred revenue:	
Property taxes	3,047,715
Other governments	9,591
Noncurrent liabilities:	
Due within one year	808,093
Due in more than one year	6,681,309
Total liabilities	11,167,449
Net Assets:	
Invested in capital assets, net of related debt	5,745,491
Restricted for:	
School lunch	7,852
Non K-12 programs	114,969
Debt service	282,415
Capital projects	1,217,812
Unrestricted	489,888
Total net assets	\$ 7,858,427

The notes to the financial statements are an integral part of this statement.

GARFIELD COUNTY SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instructional services	\$ 6,633,019	\$ 24,953	\$ 1,768,565	\$ -	\$ (4,839,501)
Supporting services:					
Students	148,758	-	69,284	-	(79,474)
Instructional staff	65,858	-	189,307	-	123,449
District administration	354,806	-	-	-	(354,806)
School administration	853,963	-	13,655	-	(840,308)
Business	190,836	-	-	-	(190,836)
Operation and maintenance of facilities	1,010,036	-	-	-	(1,010,036)
Transportation	497,648	-	266,563	-	(231,085)
School lunch services	365,291	88,844	190,710	-	(85,737)
Interest on long-term liabilities	337,772	-	-	-	(337,772)
Total school district	<u>\$ 10,457,987</u>	<u>\$ 113,797</u>	<u>\$ 2,498,084</u>	<u>\$ -</u>	<u>(7,846,106)</u>
General revenues:					
Property taxes levied for:					
General purposes					964,681
Transportation					86,094
Recreation					65,431
Debt service					1,186,371
Capital outlay					1,063,257
Federal and state aid not restricted to specific purposes					4,889,766
Earnings on investments					119,820
Miscellaneous					242,115
Total general revenues					<u>8,617,535</u>
Change in net assets					<u>771,429</u>
Net assets - beginning					<u>7,086,998</u>
Net assets - ending					<u>\$ 7,858,427</u>

The notes to the financial statements are an integral part of this statement.

GARFIELD COUNTY SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2006

	Major Funds			Other	Total
	General	Debt Service	Capital Projects	Governmental Funds	Governmental Funds
Assets:					
Cash and investments	\$ 719,436	\$ 281,796	\$ 1,192,875	\$ 121,286	\$ 2,315,393
Receivables:					
Property taxes	837,684	1,047,033	1,112,505	56,804	3,054,026
Other governments	578,110	-	-	-	578,110
Other receivables	-	-	-	-	-
Inventory				9,591	9,591
Total assets	<u>\$ 2,135,230</u>	<u>\$ 1,328,829</u>	<u>\$ 2,305,380</u>	<u>\$ 187,681</u>	<u>\$ 5,957,120</u>
Liabilities and fund balances:					
Liabilities:					
Accounts payable	\$ 81,036	\$ -	\$ -	\$ -	\$ 81,036
Accrued salaries	512,500	-	-	-	512,500
Deferred revenue:					
Property taxes	885,669	1,019,209	1,087,568	55,269	3,047,715
Other governments	-	-	-	9,591	9,591
Local sources	-	-	-	-	-
Total liabilities	<u>1,479,205</u>	<u>1,019,209</u>	<u>1,087,568</u>	<u>64,860</u>	<u>3,650,842</u>
Fund Balances:					
Reserved for:					
Debt service	-	309,620	-	-	309,620
Unreserved:					
Designated for:					
Undistributed reserve	170,000	-	150,000	-	320,000
Undesignated, reported in:					
General fund	486,025	-	-	-	486,025
Capital projects fund	-	-	1,067,812	-	1,067,812
Special revenue funds	-	-	-	122,821	122,821
Total fund balances	<u>656,025</u>	<u>309,620</u>	<u>1,217,812</u>	<u>122,821</u>	<u>2,306,278</u>
Total liabilities and fund balances	<u>\$ 2,135,230</u>	<u>\$ 1,328,829</u>	<u>\$ 2,305,380</u>	<u>\$ 187,681</u>	<u>\$ 5,957,120</u>

The notes to the financial statements are an integral part of this statement.

GARFIELD COUNTY SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006

Total fund balances for governmental funds	\$ 2,306,278
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 100,222	
Buildings and improvements, net of \$6,837,250 accumulated depreciation	12,372,750	
Furniture and equipment, net of \$1,127,056 accumulated depreciation	566,494	13,039,466

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$26,862 and accrued interest for obligations under capital leases is \$523	(27,205)
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Bond issuance costs are reported as expenditures in the governmental funds. The cost is \$55,000 and accumulated amortization is \$25,710.	29,290
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Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Bonds payable	(7,111,000)	
Obligations under capital leases	(182,975)	
Accrued sick pay	(195,427)	
Early retirement payable	0	(7,489,402)

Total net assets of governmental activities	\$ 7,858,427
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GARFIELD COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	Major Funds			Other	Total
	General	Debt Service	Capital Projects	Governmental Funds	Governmental Funds
Revenues:					
Property taxes	\$ 1,050,770	\$ 1,186,373	\$ 1,063,259	\$ 65,432	\$ 3,365,834
Earnings on investments	85,654	7,103	27,063	-	119,820
School lunch sales	-	-	-	88,844	88,844
Other local sources	228,102	-	10,301	28,665	267,068
State aid	6,228,578	-	-	133,232	6,361,810
Federal aid	851,300	-	-	174,740	1,026,040
Total revenues	8,444,404	1,193,476	1,100,623	490,913	11,229,416
Expenditures:					
Current:					
Instructional services	5,731,825	-	239,277	187,137	6,158,239
Supporting services:					
Students	148,758	-	-	-	148,758
Instructional staff	65,858	-	-	-	65,858
District administration	327,151	-	-	-	327,151
School administration	848,557	-	-	-	848,557
Business	190,086	-	-	-	190,086
Operation and maintenance of facilities	1,006,046	-	-	-	1,006,046
Transportation	444,588	-	-	-	444,588
School lunch services	-	-	-	364,141	364,141
Capital outlay	-	-	223,510	-	223,510
Debt service:					
Principal retirement	-	717,000	70,157	-	787,157
Interest and fiscal charges	-	341,221	-	-	341,221
Total expenditures	8,762,869	1,058,221	532,944	551,278	10,905,312
Excess (deficiency) of revenues over (under) expenditures	(318,465)	135,255	567,679	(60,365)	324,104
Other financing sources (uses):					
Transfers	(85,000)	-	-	85,000	-
Capital lease proceeds	85,000	-	-	-	85,000
Sale of capital assets	-	-	-	-	-
Total other financing sources (uses)	-	-	-	85,000	85,000
Net change in fund balances	(318,465)	135,255	567,679	24,635	409,104
Fund balances - beginning	974,490	174,365	650,133	98,186	1,897,174
Fund balances - ending	\$ 656,025	\$ 309,620	\$ 1,217,812	\$ 122,821	\$ 2,306,278

The notes to the financial statements are an integral part of this statement.

GARFIELD COUNTY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2006

Net change in fund balances-total governmental funds	\$ 409,104
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 for furniture and equipment and \$100,000 for buildings and improvements are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 127,500	
Depreciation expense	<u>(463,010)</u>	(335,510)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.

Other financing source - capital lease	(85,000)	
Principal payments of capital leases	<u>70,157</u>	(14,843)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	717,000	
Interest expense - general obligation bonds	3,449	
Amortization of bond issuance costs	(4,785)	
Amortization of bond premium	<u>-</u>	715,664

In the statement of activities, certain operating expenses - compensated absences (vacations), special termination benefits (early retirement) and claims (arbitrage rebates) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, accrued sick pay increased by \$2,986, and early retirement payable did not change.

(2,986)

Change in net assets of governmental activities	<u>\$ 771,429</u>
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GARFIELD COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Property taxes	\$ 910,193	\$ 1,046,580	\$ 1,050,770	\$ 4,190
Earnings on investments	28,643	77,293	85,654	8,361
Other local sources	60,000	175,317	228,102	52,785
State aid	6,126,203	6,281,219	6,228,578	(52,641)
Federal aid	654,282	740,061	851,300	111,239
Total revenues	7,779,321	8,320,470	8,444,404	123,934
Expenditures:				
Current:				
Instructional services	5,335,237	6,282,916	5,731,825	551,091
Supporting services:				
Students	147,602	143,485	148,758	(5,273)
Instructional staff	72,996	66,364	65,858	506
District administration	334,808	326,923	327,151	(228)
School administration	806,917	842,455	848,557	(6,102)
Business	298,767	266,702	190,086	76,616
Operation and maintenance of facilities	873,528	948,344	1,006,046	(57,702)
Transportation	380,466	471,093	444,588	26,505
Other	-	-	-	-
Total expenditures	8,250,321	9,348,282	8,762,869	585,413
Excess of revenues over expenditures	(471,000)	(1,027,812)	(318,465)	709,347
Other financing sources (uses):				
Capital lease proceeds		-	85,000	85,000
Transfer in	565,000	216,429	-	(216,429)
Transfer out	(94,000)	(163,107)	(85,000)	78,107
Net change in fund balances	-	(974,490)	(318,465)	656,025
Fund balances - beginning	974,490	974,490	974,490	-
Fund balances - ending	<u>\$ 974,490</u>	<u>\$ -</u>	<u>\$ 656,025</u>	<u>\$ 656,025</u>

The notes to the financial statements are an integral part of this statement.

GARFIELD COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

	<u>Agency Funds</u>
Assets:	
Cash and investments	\$ 341,786
Total Cash and investments	<u><u>\$ 341,786</u></u>
Liabilities	
Due to student groups	\$ 155,879
Due to other government agencies	<u>185,907</u>
Total liabilities	<u><u>\$ 341,786</u></u>

The notes to the financial statements are an integral part of this statement.

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GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Garfield County School District have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The more significant accounting policies of the District are described below.

Reporting Entity - The Board of Education, comprised of five elected individuals, is the primary governing authority for the District. As required by GAAP, these financial statements present the District. The District is not a component unit of any other primary government.

Government-wide and fund financial statements – The *government-wide financial statements* (i.e., the statement of net assets and the statement of changes in net assets) display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building is used primarily for instructional, school administration, operation and maintenance of facilities, and school lunch services) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line.

Program revenues include 1) fees and charges paid by students and other recipients of goods or services, offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The *fund financial statements* provide information about the District's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The *debt service fund* accounts for resources accumulated and payments made for principal and interest on general obligation school building bonds.
- The *capital projects fund* accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities; and procurement of equipment necessary for providing educational programs for all students within the District.

Additionally, the District reports the following fund type:

- The *student activities agency fund (a fiduciary fund)* accounts for assets held on behalf of student groups and others.
- The District also is the fiscal agent for skills certification testing for the Utah State Office of Education. These funds are also accounted for in the agency funds.

Measurement focus, basis of accounting, and financial statement presentation – The *government-wide and fiduciary fund financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

days after year-end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and post-employment healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Budgetary Data – Budgets are presented on the modified accrual basis of accounting for all governmental funds except the Garfield County Foundation for Excellence special revenue fund. Budgets are not adopted on a District level for the student activities agency fund. All annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During June of each year, the District superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30th.
- Copies of the proposed budget are made available for public inspection and review by the District's patrons.

If the District does not exceed the certified tax rate, a public hearing is held prior to June 22nd at which the budget is legally adopted by resolution of the Board after obtaining taxpayer input. If the District exceeds the certified tax rate, the budget is adopted in August when data is available to set the tax rates.

- Once adopted, the budget can be amended by subsequent Board action. The Board, upon recommendation of the superintendent can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2006, have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is employed in the governmental funds and the internal service fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Negative variances in total revenues and the positive variances in total expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume the expenditure of all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. As a result, overall fund revenue variances will be negative, and overall fund expenditure variances will be positive.

Deposits and Investments – The cash balances of substantially all funds are pooled and invested by the District for the purpose of increasing earnings through investment activities and providing efficient management of temporary investments. The pool's investments are reported at fair value at year-end. Changes in the fair value of investments are recorded as investment earnings. Earnings on pooled funds are apportioned and paid or credited to the funds based on the average balance of each participating fund.

Cash and Cash Equivalents – The District considers cash and cash equivalents in proprietary funds to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Pool (PTIF).

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resource.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Inventories – Inventories are valued at cost or, if donated, at fair value when received, using the moving average method. The consumption method of accounting is applied to the inventories of all funds.

Inventories of donated United States Department of Agriculture (USDA) commodities on hand at year-end are reported on the balance sheet at fair market value on the date received as inventory. Commodities used during the year are reported as revenue and expenditure on the operating statement.

Capital Assets – Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 for land, furniture and equipment and \$100,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Furniture	15
Portable Classrooms	15
Machinery and Tools	15
Buses	15
Laboratory Equipment	10
Musical Instruments	10
Licensed Vehicles	10
Computers	5

Compensated Absences – Under terms of association agreements, twelve-month or full-year employees earn vacation and sick leave in amounts varying with tenure and classification. In the event of termination or death, an employee is reimbursed for accumulated sick days to a maximum of 120 days (of which on half of accumulated days will be paid at \$60 per day). No reimbursement or accrual is made for unused vacation leave.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

All sick pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations – In the government-wide financial statements financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Comparative Data and Reclassifications – Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

2. DEPOSITS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The District considers the actions of

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. District funds are deposited in qualified depositories as defined by the Act. The District does not have a deposit policy for custodial credit risk. As of June 30, 2006, the District's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2006</u>
Regular Checking Account	Insured	\$ 200,000
Regular Checking Account	Uninsured and collateralized	<u>316,739</u>
		<u>\$ 516,739</u>

B. Investments

The District's investments are managed through participation in the state Public Treasurer's Investment Fund and through a repurchase agreement arrangement with a local bank. As of June 30, 2006, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	57 days average	<u>\$2,536,583</u>

Investments – Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The District follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. District funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the District to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The District considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The District has no investment policy that would further limit its investment choices.

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

3. PROPERTY TAXES

The property tax revenue of the District is collected and distributed by Garfield County treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%. The interest rate period is from January 1 until the date paid.

Beginning January 1, 1992, an annual uniform fee based on the value of motor vehicles was levied in lieu of an ad valorem tax on motor vehicles. This uniform fee was 1.5% of the fair market value statewide value of the property, as established by the State Tax Commission. Effective January 1, 1999, legislation required motor vehicles be subject to an "age-based" fee that is due each time a vehicle is registered. The age-based fee is for passenger type vehicles and ranges from \$10 to \$150 based on the age of the vehicle. The revenues collected in each county from motor vehicle fees is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes motor vehicle fees as property tax revenue when the County collects it.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

As of June 30, 2006, property taxes receivable by the District includes uncollected taxes assessed as of January 1, 2006 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion.

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2006 is as follows:

Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 100,222	\$ -	\$ -	\$ 100,222
Construction in progress	-	-	-	-
Water stock	-	-	-	-
Total capital assets, not being depreciated	<u>100,222</u>	<u>-</u>	<u>-</u>	<u>100,222</u>
Capital assets, being depreciated:				
Buildings and improvements	19,210,000	-	-	19,210,000
Furniture and equipment	<u>1,566,050</u>	<u>127,500</u>	<u>-</u>	<u>1,693,550</u>
Total capital assets, being depreciated	<u>20,776,050</u>	<u>127,500</u>	<u>-</u>	<u>20,903,550</u>
Accumulated depreciation for:				
Buildings and improvements	(6,486,300)	(350,950)	-	(6,837,250)
Furniture and equipment	<u>(1,014,996)</u>	<u>(112,060)</u>	<u>-</u>	<u>(1,127,056)</u>
Total accumulated depreciation	<u>(7,501,296)</u>	<u>(463,010)</u>	<u>-</u>	<u>(7,964,306)</u>
Total capital assets, being depreciated, net	<u>13,274,754</u>	<u>(335,510)</u>	<u>-</u>	<u>12,939,244</u>
Governmental activities capital assets, net	<u>\$ 13,374,976</u>	<u>\$ (335,510)</u>	<u>\$ -</u>	<u>\$ 13,039,466</u>

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Depreciation expense was charged to functions of the District as follows:

Governmental activities:

Instructional services	\$ 373,985
Supporting services:	
District administration	27,655
School administration	3,150
Business	750
Operation and maintenance of facilities	3,260
Transportation	53,060
School lunch services	<u>1,150</u>
Total depreciation expense, governmental activities	<u>\$ 463,010</u>

5. RETIREMENT PLANS

Defined Benefit Plans - The District contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System (Systems), which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members in the State and School Contributory Retirement System are required to contribute 5% of their annual covered salary (all or part may be paid by the employer for the employee) and Garfield County School District is required to contribute 5.91% of their member's annual covered salary. In the State and School Noncontributory Retirement System the Garfield County School District is required to contribute 13.38% of the member's annual covered salary. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The District's contributions to the State and School Contributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$0, \$0 and \$0 respectively. The Noncontributory Retirement System contributions for June 30, 2006, 2005 and 2004 were \$538,821, \$551,373 and \$457,223 respectively. The contributions were equal to the required contributions for each year.

Defined Contribution Plan – The District participates in a defined contribution plan under Internal Revenue Code Section 401(k) to supplement retirement benefits accrued by participants in the Systems. Employees covered by the State and School Noncontributory Retirement System have a contribution of 1.5% of covered salaries automatically made by the District. Employees participating in the Systems can make additional contributions to the 401(k) plan up to specified limits. Contributions and earnings may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement. The employer 401(k) contributions for the years ended June 30, 2006, 2005, and 2004 were \$76,453, \$73,455 and \$64,122 respectively; the employee contributions for the years ending June 30, 2006, 2005, and 2004 were \$111,517, \$99,922 and \$88,297 respectively. The 401(k) plan funds are fully vested to the participants at the time of deposit. Plan assets are administered and held by URS.

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined with other public entities in a common risk management and insurance program operated by the State of Utah Division of Risk Management. The District pays premiums to this risk pool, the Utah State Risk Management Fund, for its general insurance coverage. The pool is self sustaining through member premiums and reinsures through commercial companies for claims in excess of specified amounts for certain types of risks. The District is subject to a minimal deductible for claims of the risk pool. The District has purchased commercial insurance for other risks of loss including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:	\$ 7,828,000	\$ -	\$ (717,000)	\$ 7,111,000	\$ 706,000
General obligation bonds					
Deferred amounts for issuance					
Premium	-	-	-	-	-
Total bonds payable, net	<u>7,828,000</u>	<u>-</u>	<u>(717,000)</u>	<u>7,111,000</u>	<u>706,000</u>
Obligations under capital lease	168,132	85,000	(70,157)	182,975	102,093
Accrued sick pay payable	<u>192,441</u>	<u>2,986</u>		<u>195,427</u>	<u>-</u>
Total governmental activity					
Long-term liabilities	<u>\$8,188,573</u>	<u>\$ 87,986</u>	<u>(\$ 787,157)</u>	<u>\$ 7,489,402</u>	<u>\$808,093</u>

Payments on the general obligation bonds are made by the debt service fund from property taxes and earnings on investments. The obligations under capital leases are paid by the capital projects fund. Vacation and early retirement benefits will be paid by the fund in which the employee worked.

General Obligation Bonds - The District issues general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities. Outstanding general obligation bonds at June 30, 2006 are as follows:

	<u>Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
Series 2002 Dated February 15, 2002 - Original Amount \$5,375,000	3.00% to 4.625%	2015	\$ 3,850,000
Series 1991 Dated 1991 - Original amount \$1,500,000	3.50%	2007	126,000
Series 1997 Dated 1997 - Original amount \$5,250,000 - Partially Refunded	5.35% to 5.90%	2007	385,000
Series 2001 Dated April 12, 2001 - Original Amount \$2,750,000	4.20% to 4.70%	2014	<u>2,750,000</u>
Total			<u>\$ 7,111,000</u>

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The debt service requirements to maturity for the general obligation bonds are shown below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 706,000	\$ 314,959	\$ 1,020,959
2008	735,000	280,619	1,015,619
2009	765,000	250,433	1,015,433
2010	800,000	235,473	1,035,473
2011-2015	<u>4,105,000</u>	<u>537,316</u>	<u>4,642,316</u>
Total	<u>\$7,111,000</u>	<u>\$1,618,800</u>	<u>\$8,729,800</u>

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2006 is \$16,284,060. General obligation debt at June 30, 2006 is \$7,111,000, resulting in a legal debt margin of \$9,173,060.

Advance Refunding - The District has issued general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$4,270,000 (the outstanding balance at year end) of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from financial statements.

Obligations Under Capital Lease - The District obtained equipment and buses under capital lease arrangements. Annual payments are funded either through the capital projects fund or from transportation. The future minimum lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$102,093	\$ 6,354	\$ 108,447
2008	51,350	2,908	54,258
2009	<u>29,532</u>	<u>1,267</u>	<u>30,799</u>
Total	<u>\$182,975</u>	<u>\$ 10,529</u>	<u>\$ 193,504</u>

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

8. DESIGNATED FOR UNDISTRIBUTED RESERVE

Utah State law allows for the establishment of an undistributed reserve. The Board of Education must authorize expenditures from the undistributed reserve. This reserve is for contingencies. According to State law, the District may not use undistributed reserves in the negotiation or settlement of contract salaries for District employees. The undistributed reserve may not exceed 5% of the current fiscal year's total general fund budgeted revenues. Use of the reserve requires a written resolution adopted by a majority vote of the Board filed with Utah State Board of Education and State Auditor.

9. GRANTS

The District receives significant financial assistance from Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, District administration believes such disallowance, if any, would be immaterial.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

School Lunch Fund – This fund is used to account for the food service activities of the District as required by state and federal law. Financing is provided by local sales along with substantial subsidies from the State of Utah and the U.S. Government to help ensure that students receive low-cost, nutritionally balanced meals.

Non K-12 Programs Fund – This fund is used to account for programs that are not part of the basic educational program of kindergarten, elementary and secondary students. These areas include adult education and preschool for disabled students. This fund is also used to account for costs to provide community educational and recreational activities. Financing is provided primarily by a recreation tax levy and student fees. This annual property tax levy is authorized by Utah Code 11-2-7 and does not have a maximum statutory rate. Fees charged to the user provide additional funds as necessary.

GARFIELD COUNTY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue</u>		<u>Total</u>
	<u>School Lunch</u>	<u>Non K-12 Programs</u>	<u>Nonmajor Governmental Funds</u>
Assets:			
Cash and investments	\$ 7,852	\$ 113,434	\$ 121,286
Receivables:			
Property taxes	-	56,804	56,804
Other governments	-	-	-
Inventory	9,591	-	9,591
Due from other funds	-	-	-
Total assets	<u>\$ 17,443</u>	<u>\$ 170,238</u>	<u>\$ 187,681</u>
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue:			
Property taxes	-	55,269	55,269
Other governments	9,591	-	9,591
Local sources	-	-	-
Total liabilities	<u>9,591</u>	<u>55,269</u>	<u>64,860</u>
Fund balances:			
Unreserved:			
Undesignated	<u>7,852</u>	<u>114,969</u>	<u>122,821</u>
Total fund balances	<u>7,852</u>	<u>114,969</u>	<u>122,821</u>
Total liabilities and fund balances	<u>\$ 17,443</u>	<u>\$ 170,238</u>	<u>\$ 187,681</u>

GARFIELD COUNTY SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	School Lunch	Non K-12 Programs	
Revenues:			
Property tax	\$ -	\$ 65,432	\$ 65,432
Student fees	-	18,568	18,568
Lunch sales	88,844	-	88,844
Other local revenues	-	10,097	10,097
State aid	30,708	102,524	133,232
Federal aid	160,002	14,738	174,740
Total revenues	279,554	211,359	490,913
Expenditures:			
Current:			
Instructional services	-	187,137	187,137
Supporting services:			
Operation and maintenance of facilities	-	-	-
School lunch services	364,141	-	364,141
Total expenditures	364,141	187,137	551,278
Excess of revenues over expenditures	(84,587)	24,222	(60,365)
Other financing sources:			
Transfer in	85,000	-	85,000
Transfers out	-	-	-
Net change in fund balances	413	24,222	24,635
Fund balances - beginning	7,439	90,747	98,186
Fund balances - ending	\$ 7,852	\$ 114,969	\$ 122,821

GARFIELD COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
School Lunch
Nonmajor Special Revenue Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006			2005
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Lunch sales - children	\$ 75,416	\$ 83,194	\$ 7,778	\$ 68,012
Lunch Sales - adult	5,000	5,650	650	7,482
Earnings on investments	-	-	-	-
Other local sales	-	-	-	-
Total local sources	80,416	88,844	8,428	75,494
State sources:				
State lunch program	26,000	30,708	4,708	30,181
Total state sources	26,000	30,708	4,708	30,181
Federal sources:				
Federal lunch program	20,000	20,798	798	19,040
Free and reduced assistance	90,000	94,201	4,201	93,783
Breakfast program	23,000	29,794	6,794	24,874
Special milk	-	-	-	-
Other	-	15,209	15,209	18,283
Total federal sources	133,000	160,002	27,002	155,980
Total revenues	239,416	279,554	40,138	261,655
Expenditures:				
Current:				
Salaries	143,348	137,771	5,577	133,056
Employee benefits	86,775	83,792	2,983	75,792
Purchased services	15,500	3,580	11,920	3,163
Supplies	8,900	2,519	6,381	5,035
Food	148,000	132,245	15,755	127,450
Other	7,439	4,234	3,205	-
Total expenditures	409,962	364,141	45,821	344,496
Excess (deficiency) of revenues over expenditures	(170,546)	(84,587)	85,959	(82,841)
Other financing sources and (uses)				
Transfers in	163,107	85,000	(78,107)	83,000
Transfers out	-	-	-	-
Net change in fund balances	(7,439)	413		159
Fund balances - beginning	7,439	7,439	-	7,280
Fund balances - ending	\$ -	\$ 7,852	\$ 7,852	\$ 7,439

GARFIELD COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Non K-12 Programs
Nonmajor Special Revenue Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006			2005
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Property taxes	\$ 64,891	\$ 65,432	\$ 541	\$ 62,002
Community school fees	10,156	18,568	8,412	10,361
Miscellaneous revenues	11,753	10,097	(1,656)	9,791
Total local sources	86,800	94,097	7,297	82,154
State sources:				
Adult high school completion	78,402	78,727	325	61,968
Preschool	23,787	23,797	10	6,546
Retirement and social security			-	
Utah State Developmental Center			-	
Total state sources	102,189	102,524	335	68,514
Federal sources:				
Special education preschool grant	-	-	-	7,955
Adult education	16,595	14,738	(1,857)	36,659
Total federal sources	16,595	14,738	(1,857)	44,614
Total revenues	205,584	211,359	5,775	195,282
Expenditures:				
Current:				
Salaries	120,813	115,923	4,890	101,144
Employee benefits	41,134	41,106	28	35,710
Purchased services	23,298	4,526	18,772	15,411
Supplies	8,327	6,312	2,015	35,611
Equipment	11,759	7,943	3,816	16,308
Other	91,000	11,327	79,673	7,344
Total expenditures	296,331	187,137	109,194	211,528
Excess (deficiency) of revenues over (under) expenditures	(90,747)	24,222	114,969	(16,246)
Fund balances - beginning	90,747	90,747	-	106,993
Fund balances - ending	\$ -	\$ 114,969	\$ 114,969	\$ 90,747

MAJOR GOVERNMENTAL FUNDS

General Fund – This fund services primary on-going operation of the District. It is used to account for activity and financial resources that are not required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest. Financing is provided by an annual property tax levy not to exceed .0024 plus an additional levy in an amount not to exceed 10% of the cost of the basic program as authorized by Utah Code 53A-16-104 and 53A-17a-145.

Capital Projects Fund - The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. Financing is provided by an annual property tax levy not to exceed .0024 plus an additional levy in an amount not to exceed 10% of the cost of the basic program as authorized by Utah Code 53A-16-104 and 53A-17a-145. Also, state funds can be obtained by qualifying under guidelines established for districts determined to be in critical need for construction building aid.

GARFIELD COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Debt Service Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006			2005
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Property tax	\$ 1,175,542	\$ 1,186,373	\$ 10,831	\$ 1,123,182
Earnings on investments	11,000	7,103	(3,897)	9,213
Total revenues	1,186,542	1,193,476	6,934	1,132,395
Expenditures:				
Debt service:				
Bond principal	891,365	717,000	174,365	662,000
Bond interest	466,042	341,141	124,901	371,981
Paying agent fees	3,500	80	3,420	3,129
Total expenditures	1,360,907	1,058,221	302,686	1,037,110
Excess (deficiency) of revenues over (under) expenditures	(174,365)	135,255	309,620	95,285
Other financing sources (uses):				
Proceeds of refunding bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(174,365)	135,255	309,620	95,285
Fund balance - beginning	174,365	174,365	-	79,080
Fund balance - ending	\$ -	\$ 309,620	\$ 309,620	\$ 174,365

GARFIELD COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Capital Projects Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006		Variance with Final Budget - Positive (Negative)	2005
	Final Budgeted Amounts	Actual Amounts		Actual Amounts
Revenues:				
Local sources:				
Property taxes	\$ 1,060,734	\$ 1,063,259	\$ 2,525	\$ 1,075,091
Earnings on investments	27,000	27,063	63	10,374
Other local revenues	-	10,301	10,301	26,328
Total local sources	1,087,734	1,100,623	12,889	1,111,793
State sources:				
Capital outlay foundation	-	-	-	-
State building aid	-	-	-	-
Other	-	-	-	-
Total state sources	-	-	-	-
Total revenues	1,087,734	1,100,623	12,889	1,111,793
Expenditures:				
Instructional Services:				
Salaries and Benefits	74,663	76,008	(1,345)	113,058
Supplies	106,000	163,269	(57,269)	87,506
Total instructional services	180,663	239,277	(58,614)	200,564
Land and buildings:				
Land improvements	108,977	-	108,977	14,370
Building improvements	455,000	181,252	273,748	301,718
Total land and buildings	563,977	181,252	382,725	316,088
Equipment:				
Equipment	44,000	42,258	1,742	-
Equipment lease principal	80,000	70,157	9,843	521,220
Other	652,798	-	652,798	-
Total equipment	776,798	112,415	664,383	521,220
Total expenditures	1,521,438	532,944	988,494	1,037,872
Excess (deficiency) of revenues over (under) expenditures	(433,704)	567,679	1,001,383	73,921
Other Financing Sources (Uses):				
General obligation bond proceeds	-	-	-	-
Transfer out	(216,429)	-	216,429	(575,000)
Equipment capital lease	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	(216,429)	-	216,429	(575,000)
Net change in fund balances	(650,133)	567,679	1,217,812	(501,079)
Fund balance - beginning	650,133	650,133	-	1,151,212
Fund balance - ending	\$ -	\$ 1,217,812	\$ 1,217,812	\$ 650,133

FIDUCIARY FUNDS

Student Activities Agency Fund – This fund is used to account for the receipt and disbursement of monies for student activity groups and organizations and other custodial type transactions within the schools. The District has a fiduciary responsibility concerning these funds to ensure their safety and accountability.

Skills Certification Testing – The District is the fiscal agent for collection and payment of fees associated with Skills Certification for the State. These funds are held for payment of bills associated with this program.

GARFIELD COUNTY SCHOOL DISTRICT
Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

	<u>Net Assets at July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Net Assets at June 30, 2005</u>
Assets:				
Cash and investments	\$ 282,010	\$ 713,097	\$ 653,321	\$ 341,786
Advance from other fund	-	-	-	-
	<u>\$ 282,010</u>	<u>\$ 713,097</u>	<u>\$ 653,321</u>	<u>\$ 341,786</u>
Liabilities:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Due to other governments agencies	145,917	203,057	163,067	185,907
Due to student organizations:				
Elementary Schools:				
Escalante	1,490	14,932	16,050	372
Bryce Valley	6,180	17,458	20,924	2,714
Boulder	16	1,365	1,158	223
Antimony	17	1,915	1,919	13
Panguitch	13,239	37,457	38,098	12,598
Total elementary schools	<u>20,942</u>	<u>73,127</u>	<u>78,149</u>	<u>15,920</u>
Middle Schools:				
Panguitch	9,272	30,552	29,292	10,532
Total middle schools	<u>9,272</u>	<u>30,552</u>	<u>29,292</u>	<u>10,532</u>
High Schools and Special Purpose Programs:				
Bryce Valley	44,847	117,745	109,686	52,906
Panguitch	21,271	140,338	132,913	28,696
Escalante	39,761	148,278	140,214	47,825
Total high schools and special purpose programs	<u>105,879</u>	<u>406,361</u>	<u>382,813</u>	<u>129,427</u>
Total due to student organizations	<u>136,093</u>	<u>510,040</u>	<u>490,254</u>	<u>155,879</u>
Total liabilities	<u>\$ 282,010</u>	<u>\$ 713,097</u>	<u>\$ 653,321</u>	<u>\$ 341,786</u>

GARFIELD COUNTY SCHOOL DISTRICT

**SINGLE AUDIT AND STATE OF UTAH
LEGAL COMPLIANCE REPORTS**

YEAR ENDED JUNE 30, 2006

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GARFIELD COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Thru Grantor's Number</u>	<u>Disbursements or Expenditures</u>
<u>U.S. Department of Education</u>			
<i>Passed Through Utah State Department of Education</i>			
Title I:	84.010A	051005	\$40,583
Title I	84.010A	061005	127,611
Special Education Grants	84.027A	061905	204,947
Drug Free Schools	84.186A	060905	9,085
VOED Title II Part B	84.048	062112	15,260
Tech Literacy Challenge (TLC)	84.318	050703	42,685
Adult Education	84.002	063308	15,338
Innoivative Education Program (Title VI, A)	84.048A	062112	88,400
Comprehensive School Reform	84.332A		52,552
Fund for the Imiprovment of Education	84.215K	063205	76,616
Improving Teacher Quality	84.367	060503	58,841
Total U.S. Department of Education			<u>731,918</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed Through Utah State Department of Education</i>			
Federal School Lunch Program	10.555	054225	3,413
Federal Special Assistance Program	10.555	054325	16,391
Federal School Lunch Program	10.555	064225	17,385
Federal Special Assistance Program	10.555	064325	77,810
Federal School Breakfast Program	10.553	054425	4,236
Federal School Breakfast Program	10.553	064425	25,558
Federal Food Commodities - Non Cash	10.556	064125	15,206
<i>Passed Through Garfield County</i>			
Forest Reserve	10.665	N/A	134,123
Total U.S. Department of Agriculture			<u>294,122</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$1,026,040</u>

See accompanying notes.

GARFIELD COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of Federal awards is a summary of activities related to the District expenditure of Federal awards. The schedule has been prepared on the same basis as the basic financial statements. Most of the awards are reimbursement based. Therefore, as expenditures of Federal funds are made, revenue is recognized.

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Ending inventory is reflected in the financial statements as deferred revenue. Ending inventory at June 30, 2006 is \$9,591.

NOTE C - ACCOUNTS RECEIVABLE

The basic financial statements include accounts receivable from Federal programs. These receivables are accrued according to the accrual basis of accounting. The receivables reflect Federal awards that have been expended by yearend and not yet reimbursed.

NOTE D - RELATIONSHIP TO DISTRICT'S FINANCIAL STATEMENTS

Federal awards expended on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2006, are reported in the District's financial statements as Federal government revenues as follows:

General Fund	\$851,300
Food Services Fund (Special Revenue Fund)	160,002
Non K-12 Programs Fund (Special Revenue Fund)	<u>14,738</u>
	<u>\$1,026,040</u>

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CERTIFIED PUBLIC ACCOUNTANTS
 A PROFESSIONAL CORPORATION

Independent Auditor's Report on Internal Control and on Compliance and Other Matters over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Education
 Garfield County School District
 Panguitch, UT

November 28, 2006

We have audited the financial statements of Garfield County School District as of and for the year ended June 30, 2006, and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

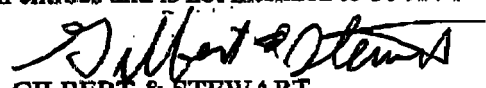
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Garfield County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Garfield County School District, in a separate letter dated September 8, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garfield County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, State Office of Education, Utah State Auditor, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


 GILBERT & STEWART
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CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Education
Garfield County School District
Panguitch, UT

November 28, 2006

Compliance

We have audited the compliance of Garfield County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Garfield County School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Garfield County School District's management. Our responsibility is to express an opinion on Garfield County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Garfield County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Garfield County School District's compliance with those requirements.

In our opinion, Garfield County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Garfield County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Garfield County School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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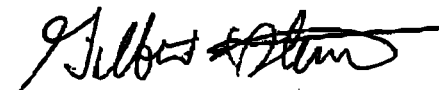
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Garfield County School District as of and for the year ended June 30, 2005 and have issued our report thereon dated November 28, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, State Office of Education, Utah State Auditor, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

**GARFIELD COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Garfield County School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Garfield County School District were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of internal control over major Federal award programs.
5. The auditor's report on compliance for the major Federal award programs for Garfield County School District expresses an unqualified opinion.
6. No audit findings relative to the major Federal award programs for Garfield County School District are reported in this schedule.
7. The programs tested as major programs included: School Lunch Cluster CFDA#10.555, #10.553 and Title I CFDA #84.010A.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Garfield County School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS -
CURRENT YEAR**

None

**D. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS - PRIOR
YEAR**

None

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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

Independent Auditor's Report on Legal Compliance in Accordance with the Utah State Legal Compliance Audit Guide

Board of Education
Garfield County School District
Panguitch, UT

November 28, 2006

We have audited the financial statements of Garfield County School District for the year ended June 30, 2005, and have issued our report thereon dated November 28, 2006. As part of our audit, we have audited Garfield County School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The District received the following major state assistance programs from the State of Utah:

Minimum School Programs

The District also received nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of the Garfield County School district's financial statements.)

Our audit also included test work on the District's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Budgetary Compliance
Cash Management

Property Tax
Purchasing Requirements
Other Compliance Requirements

The management of the Garfield County School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred.

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An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance.

In our opinion, Garfield County School District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2006.

This report is intended solely for the information of management, the Board of Education, state Office of Education, and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants